

North american free trade agreement (nafta)



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Three years after the North American Free Trade Agreement (NAFTA) created the largest free trade area in the world, the debate rages on.

Critics say NAFTA is a failure that its member countries the United States, Mexico and Canada should abandon. Its a trade agreement from hell, according to the consumer group Public Citizen. Supporters call NAFTA a success and want it to expand across Latin America. Former Commerce Secretary and U. S. Trade Representative Mickey Kantor calls it a win-win situation for everyone.

Opinions grow particularly heated when the focus turns to the United States and Mexico. By the time NAFTA went into effect Jan. 1, 1994, the United States and Canada already had five years of experience with the Canada-U. S.

Free Trade Agreement. Provisions under that agreement continued basically unchanged for the two developed nations under NAFTA. Mexico, on the other hand, was a developing country where such issues as lower labor costs, illegal immigrants and environmental problems created a target for NAFTA opponents.

Many analysts say its too early to judge NAFTAs impact on U. S.

-Mexico trade, in part because many of its provisions have yet to take effect. While some tariffs and nontariff barriers were eliminated immediately, others phase out gradually through 2008. More important, trade agreements are directly influenced by macroeconomic changes in individual countries and globally, such as changes in income and exchange rates. In Mexicos case,

the peso devaluation during NAFTA's infancy in late 1994 plunged the country into a severe recession and sharply altered trade flows. A clear-cut assessment of NAFTA also is difficult because many of Mexico's trade liberalization policies were in effect before NAFTA began, prompted by Mexico's membership in the General Agreement on Tariffs and Trade (GATT) and its ongoing domestic reforms.

It is important to realize that NAFTA is not the opening up of Mexico, said Jonathan Heath, a Mexico City economist. The opening up of Mexico had occurred before NAFTA. NAFTA is the consolidation of that opening up and what it really represents is the locking in of trade liberalization for Mexico.

Some analysts say NAFTA can be judged in part by examining what would have happened without the trade agreement. For example, trade disputes have continued to erupt, but NAFTA provides a forum for hearings and resolution.

For now, the fairest statement about NAFTA may be that neither the critics' worst fears nor the supporters' rosier forecasts has materialized.

Nonetheless, many analysts agree that NAFTA has made a mark. U. S.-Mexico trade continues to grow, and NAFTA and the promises it brings have lessened the impact of the Mexican recession and quickened its recovery. Healthy, growing bilateral trade, they say, depends on healthy, growing economies, and Mexico's recovery and continuing economic liberalization should fuel that trend.

NAFTA is a comprehensive agreement designed to improve virtually all aspects of trade between the three partners. NAFTA eliminates tariffs

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completely over several years and removes many nontariff barriers like quotas.

Many tariffs ended the day NAFTA took effect: They affected half of all U. S.

exports to Mexico, such as semiconductors and computers, telecommunications and electronic equipment and medical devices. Tariffs on other products fall over a longer period of time. For example, U. S.

automotive parts entering Mexico see a 75 percent reduction in duties over the first five years of NAFTA, with the rest phased out over 10 years. About half the agricultural products traded between the two countries had tariffs cut immediately, but “ import sensitive” items such as corn and beans for Mexico and orange juice and sugar for the United States phase out over 15 years. From the beginning, critics have said NAFTA benefits Mexican more than U. S. interests, lures U.

S. jobs away to lower-paying wages in Mexico and litters the two countries’ border towns with industrial pollution. “ It’s staggering how far NAFTA has fallen short of the promises of its proponents,” says Chris McGinn, deputy director of global trade for Public Citizen, a Washington, D. C.-based consumer group. “ It has failed to improve the environment and public health along the Mexican border.

It has failed to create the jobs it promised. It has turned a trade surplus into a massive deficit.” He joins the AFL-CIO and the Teamsters Union in an anti-NAFTA chorus. Opposition also comes from the American Coalition for Competitive Trade, which claims 500, 000 members and wants NAFTA

dispute panels declared unconstitutional. Outspoken among those who say it's time to measure NAFTA's performance against its promises is Rep. Marcy Kaptur, D-Ohio, who with 40 cosponsors has reintroduced a bill called the NAFTA Accountability Act.

The bill, which stalled in committee last year, argues that NAFTA was passed on promises it would increase the standard of living in both Mexico and the United States, reduce illegal immigration, improve environmental and health conditions on the border and slow the drug trade. Now, says Kaptur, it's time to evaluate the results. The bill would require the Clinton administration to certify that these goals have been achieved.

If not, the United States would be forced to renegotiate or withdraw from NAFTA. NAFTA supporters, chief among them the Clinton administration, counter with claims of successes.

U. S.-Mexico trade has gone up, jobs were created and Mexico's economy is growing again, they say. While gains in U.

S. exports to Mexico, particularly in agricultural products, have lagged, the delays are temporary and caused by economic conditions beyond NAFTA's control, they say. "The expectation of long-term benefits from NAFTA for the United States remains," said a U. S. Department of Agriculture (USDA) publication last April titled "NAFTA: Year Two and Beyond." "But economic conditions and other factors could push the realization of these benefits into a lumpy transition path several years into the future.

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The primary economic wrench that threw off many expectations of NAFTA and colors any analysis of its impact was Mexico's devaluation of the peso less than a year after the trade agreement took effect. The action shocked international financial markets and plunged Mexico into one of its worst recessions. In December 1994, the devaluation dropped the Mexican peso from 3.5 per dollar to about 6.5. It averaged about 7.

5 pesos to the dollar for most of 1996. In the first week of March, the peso weakened to about 8 to the dollar. While NAFTA critics blame NAFTA for Mexico's economic crisis, other observers say the interplay of complex financial, economic and political factors in 1994 forced the devaluation and triggered the recession. Rather than letting Mexico default on its debts, the Clinton administration scrambled to help with a \$50-billion credit package \$20 billion from the United States and the balance from the World Bank and the International Monetary Fund.

NAFTA did not take place in an economic vacuum, David Gould, an economist with the Federal Reserve Bank of Dallas, stated in a study.

The peso devaluation halted and reversed a growing trend for Mexico's economy and foreign investment, as well as for overall U. S.-Mexico trade. Overall U. S.

-Mexico trade has increased over the last two decades. Since 1993, annual bilateral trade has grown from \$81.5 billion to a projected \$128.1 billion for 1996. U. S.

shipments to Mexico are dominated by intermediate goods used to make finished products, heavy machinery and tools, and chemicals. Mexico's sales to the United States are led by petrochemicals, steel, apparel and farm produce. Historically that growth has been uneven due to recurring periods of instability in the Mexican economy, reported a U. S. government-funded study published by the University of California at Los Angeles (UCLA).

" While Mexican exports to the U. S. have shown strong performance, U. S. exports to Mexico have been highly vulnerable in periods of Mexican economic crisis (1976, 1982, 1986, 1994) which has resulted in cyclical U.

S. trade deficits," stated the study, published last December by UCLA's North American Integration Development Center.

The last round of recession has been no different, especially in 1995, the first year after the peso crisis. In 1993 and 1994, U. S.

trade surpluses with Mexico were \$1. 7 billion and \$1. 3 billion respectively, according to the U. S.

Commerce Department. In 1995, that surplus shifted to a \$15. 4-billion deficit for the United States, with an estimated \$16. 2-billion deficit in 1996.

The trend was the same for agricultural trade after the peso devaluation.

A U. S. surplus of \$1. 6 billion in 1994 eroded to a \$260 million deficit in 1995.

" The price of Mexican products suddenly became cheaper for U. S. residents to buy, while U. S.

products became more expensive for Mexico residents," Gould wrote. The impact was greater felt in Mexico, where the resulting recession caused a decline in Mexican consumer income. That in turn worsened the prospects for U. S.

exports, he said. U. S. exports to Mexico declined by 11 percent, his study showed. Critics blame NAFTA for much of the crisis, saying that euphoria over the pact led to bad lending decisions by Mexican banks and unsustainable consumer spending.

Furthermore, they say, concern about NAFTA's approval caused President Ernesto Zedillo's administration to delay the devaluation, which would have been less severe if implemented earlier.

Others, however, say NAFTA was unrelated to the crisis. A telling sign that the peso crisis and not NAFTA was to blame for the U. S. trade deficit with Mexico lies in the amount of U.

S. corn that Mexico imported before and after the devaluation, some experts say. Because corn is among some of the more sensitive commodities with tariffs to be phased out over 15 years, it is a controlling yardstick to factor out much of NAFTA's immediate impact. Yet, like many imports, corn also dropped in 1995 and led to a draw-down of Mexico's stocks because the economic recession reduced corn consumption, according to the USDA. In fact, NAFTA was a cushioning and stabilizing factor during Mexico's economic crisis. USDA analysts say the 22-percent drop in U.

S. exports to Mexico could have been worse without NAFTA, because the agreement kept Mexico from installing new barriers to stem imports.

In addition, USDA officials say, NAFTA gave the United States and Canada an advantage over other agricultural traders in the Mexican market in 1995, and U. S. market share in Mexico increased even as its exports to Mexico declined.

More generally, the National Foreign Trade Council, a U. S. trade association, said that although 1995 U. S. exports to Mexico were nearly 9 percent lower than 1994 levels, European and Japanese exports fell by 24 percent and 21 percent, respectively. Analysts also say that having a trade agreement that locks in economic ties between the United States and Mexico probably helped curb money flight from Mexico and stimulated a return of foreign investment.

Without such an agreement in 1982, when Mexico had another debt crisis, the government took different measures that actually slowed recovery and further undermined investor confidence. In 83, we (Mexico) had a very large trade deficit, and we turned it into a surplus by cutting imports, Heath said from Mexico City. Almost 90 percent of the adjustment was on the import side.

This time, 90 percent of the adjustment was on the export side. Because of policies locked in by NAFTA, we were able to fix the deficit by increasing exports.

NAFTA's effect on employment in the United States and Mexico remains a hotly debated question, with no definitive answer. Research by some economists indicates that the pact has resulted in loss of jobs in the United States. Others say the United States is gaining jobs. Still others say no one really knows for sure because linking employment to trade is an imprecise science at best. " On NAFTA and jobs you're dealing with questions that are impossible to give definitive answers to," said Lance Compa, director of labor law and economic research for the North American Commission for Labor Cooperation. " What to blame NAFTA for and what to credit it with concerning jobs depends on where you stand, or better, where you work.

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The Washington, D. C.-based Economic Policy Institute claims 263, 000 U. S. jobs have been lost to Mexico because of " increasing net export deficits" since NAFTA began. On the other hand, the U. S. Labor Department reported that only 90, 000 U. S. workers have qualified for a program that pays for retraining workers displaced by NAFTA.

Yet another analysis, by the National Foreign Trade Council, said that 2. 4 million jobs are " supported" by exports to Mexico and Canada. NAFTA's effect on U. S.

jobs has been minimal, according to the UCLA study, called " North American Integration After NAFTA." Increased imports to the United States eliminated an estimated 28, 168 jobs the last three years, the study said, while increased exports supported creation of 31, 158 jobs, a net gain of 2, 990.

Raul Hinojosa, who directed the study, said jobs that support exports from the United States to Mexico pay better than those that were shifted to Mexico, and that long term, the United States will gain more jobs than it loses from the agreement. Both the U.

S. and Mexican governments report that unemployment has decreased in the first three years of NAFTA.

Mexico's "maquiladoras," primarily foreign-owned assembly plants, have drawn special attention throughout the NAFTA debate. They are allowed to import into Mexico duty-free components and raw materials that are then used to make export goods. If the goods are exported back to the United States, the U.

S. content of the goods is also exempt from U. S. tariffs.

Critics still say that maquiladoras take away U. S. jobs, but a National Bureau of Economic Research study in April 1996 found that they help spur jobs on both sides of the border. Some of the initial concerns and promises voiced during the NAFTA debate haven't panned out the way either side predicted. There were fears that the U.

S. auto industry would flee to Mexico, but the Big Three U. S. automakers have announced no major new investment in Mexico since the trade pact's implementation, according to the Commerce Department.

Another concern was that Mexico's relatively cheap labor force would lure U. S.

factories across the border. U. S. corporate investment in Mexican manufacturing facilities rose from \$1 billion in 1993 to \$2.5 billion in 1994, then fell to \$1.

5 billion a year later in the peso crisis fallout. In contrast, business investment in the United States exceeded \$700 billion that year. While NAFTA was promoted as the greenest trade pact in history, environmentalists say little improvement has occurred, particularly along Mexico's industrializing northern border. "On the environmental front, NAFTA has done virtually nothing," said Dan Seligman of the Sierra Club. "We have a NAFTA environmental commission that has devoted three years to a lot of studies.

Some are good studies, some are nice studies, but I don't think a single toxic waste site or a single polluting smokestack has been cleaned up because of anything they've done."

Two agreements were added to the final NAFTA negotiations in response to several U. S. environmental groups' concerns about cross-border pollution. One was the North American Agreement on Environmental Cooperation, which created a commission to enforce environmental law. But the commission was not fully staffed until 1995 and has had a slow start.

The other agreement created the Border Environment Cooperation Commission and the North American Development Bank to address pollution problems along the U. S.-Mexican border. By mid-1996, the development bank had an \$80-million budget and was considering loans to border communities for eight projects designed to reduce water pollution, according

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to a paper by University of Illinois' Gerald Nelson. Mexico has closed down 72 maquiladoras and suspended operations of 219 others for environmental problems, he said.

NAFTA critics and advocates alike say special interests have found ways to protect themselves from competition, and several disputes have resulted.

Since 1994, seven cases have come under NAFTA's dispute resolution process, though only one a U. S.-Canada dispute over tariff rate quotas on dairy, poultry, barley and margarine has been resolved.

Cases included a U. S. complaint over deliveries of small packages to Mexico, Canada and Mexico's complaints about the U. S.

Helms-Burton Act (which imposes economic sanctions against Cuba) and the pending fight over straw brooms. NAFTA also has a provision for antidumping and counter-vailing duties disputes. That process has helped resolve 12 cases, with five more pending. Several U.

S.-Mexico trade disputes stand out. Last December, Mexico's Trade Secretariat raised import tariffs on nine U. S. products including wine, whiskey and corn syrup in response to a U. S.

tariff increase on Mexican straw brooms. The United States argued that it needed the three-year safeguard tariffs to allow U. S. broommakers time to adjust to competition from Mexico. Imports from Mexico, as well as Hungary and several other Latin American countries, took almost 60 percent of the U. S.

market last year.

Both sides say their actions are allowed under NAFTA, one to protect an endangered domestic industry, the other to retaliate when another NAFTA member imposes a unilateral safeguard. In mid-January, Mexico asked for a panel to hear the dispute. Also pending is a dispute over whether to allow Mexican truckers past a narrow band inside the U.

S. border a ban Mexico believes violates NAFTA. In late 1995, President Clinton indefinitely delayed a NAFTA rule allowing Mexican trucks to operate throughout the border states. A labor-environmental coalition organized by the Teamsters Union supports the delay, arguing that the Mexican trucks are not in compliance with safety and insurance requirements governing U. S. trucks.

Some trade disputes, however, spill over beyond NAFTA. In February, Mexicos commerce ministry began to investigate the import of U. S. high fructose corn syrup to determine if the product is being dumped in Mexico at below-U. S.

-prices and threatening damage to Mexicos sugar industry.

Last year, Mexican tomato growers agreed to a compromise the U. S. Commerce Department assembled to end their export of low-priced winter tomatoes to the United States. The agreement, pushed by the Clinton administration, was in response to an antidumping complaint U. S.

tomato growers filed against Mexican growers. The accord, which the Mexican government accepted reluctantly in order to keep its primary U. S.

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tomato market, allows continued shipments of Mexican tomatoes, but at a price acceptable to Florida growers.

NAFTA observers smell politics in these disputes. The U. S. presidential and congressional elections were in full swing last year.

In congressional elections this summer, Zedillos Institutional Revolutionary Party is expected to face a strong challenge to its 70-year-old control of the Mexican government. NAFTA is such a comprehensive agreement that any of these trade disputes could have been handled through NAFTA, but that takes time, said George Grayson, a NAFTA expert and professor of government at the College of William and Mary.

So if you want Floridas 15 electoral votes, you try to change the rules on Mexican tomatoes. If you want to ingratiate yourself with the Teamsters, you dont allow Mexican 18-wheelers to come roaring into the Southwest.

Mexico's future as a NAFTA partner and a customer for U. S. products hinges on its continuing economic recovery. " The tariffs lowered by NAFTA aren't the issue," says Hinojosa, who led the UCLA study. " What we must consider is how we help sustain real Mexican stability and growth." By many accounts, Mexico's economy is showing a strong turnaround.

In January Mexico paid off its \$13. 5 billion U. S. loan plus \$560 million in interest three years early.

Mexico's inflation rate, which soared from 7 percent in 1994 to 52 percent in the 1995 recession, began to dip in January 1996 and ended that year at around 27 percent. This year analysts are forecasting inflation between 17

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and 18 percent. Interest rates, too, are dropping from a peak of nearly 75 percent in April 1995 to 31 percent this year. The peso appears to be stabilizing and is expected to trade at about 8.

5 to the dollar for most of this year.

Mexico's Gross Domestic Product (GDP), which measures all economic activities, has been rebounding, with a growth rate of 5.1 percent last year. Direct foreign investment is a bright and critical spot. In part because of optimism inspired by NAFTA, some analysts say, direct foreign investment in Mexico jumped from \$4.3 billion in 1993 to \$10.

9 billion in 1994, according to the Central Bank of Mexico. It settled back to \$6.3 billion in the last two years and was expected to reach at least that level this year. This relatively quick return of foreign investment is one reason Mexico's economic recovery is moving faster than it did after the last recession in 1982-83, according to Nora Lustig, a senior fellow in Foreign Policy Studies at the Brookings Institution.

"After the crisis in 1982-83 you did not have a recovery until the late '80s," Lustig said. "Mexico suffered from a debt overhang and it was hard to grow at all without money from the capital markets.

But now, Mexico has regained access to capital markets very quickly and the integration stimulated by NAFTA is helping to make this recovery sustainable." With the Mexican economy in recovery, the Clinton administration is seeking fast track authority to expand NAFTA to include

other Western Hemisphere countries in a Free Trade Area of the Americas (FTAA) agreement, starting with Chile.

Chile has been interested in joining since NAFTA began, but Mexico's financial crisis created congressional opposition to U. S. involvement in a larger agreement. Now, Chile is back and is an attractive candidate: It is the first country in the region to privatize state enterprises, slash tariffs, liberalize investment and open its doors to foreign capital. Analysts suggest that growing competition from Europe and Asia for Latin American markets may make Congress more willing to grant the fast track authority, which lets a trade pact go to Congress for a vote without being subject to amendment. The issue is undergoing congressional hearings, where latent mistrust and dislike of NAFTA is surfacing.

It would be crazy to expand NAFTA based on its performance, said Public Citizens McGinn.

The AFL-CIO says NAFTA exports factories and jobs to Mexico, and we will continue to fight over labor standards, human rights and environmental protection. The Teamsters Union is dead set against any expansion of NAFTA. Many say, however, that the tide toward global trade liberalization is unstoppable, with or without NAFTA.

Mexican writer Carlos Fuentes has seen his country's political and economic ups and downs for more than half a century and says in his recent book, *A New Time for Mexico*, that NAFTA institutionalized the growing relationship among the three North American economies. Fuentes said, That relationship would have increased with or without NAFTA, but NAFTA spelled out the

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opportunities, rights and duties that would otherwise have gone unheeded or been insufficiently stimulated. Bibliography: News & Info Products & Businesses Cargill Sites About Cargill Community Careers Site Map Contact Us Home Copyright 2002 Cargill, Incorporated. All rights reserved.